



2016/17 DRAFT ANNUAL BUDGET OF UMUZIWABANTU MUNICIPALITY

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2. MAYOR'S REPORT

SPEECH DELIVERED BY THE HONOURABLE MAYOR, CLLR D NCIKI ON TABLING THE DRAFT BUDGET FOR THE YEAR 2016/2017

Honourable Speaker;

Deputy Mayor;

Members of the Executive Committee;

Councillors;

Municipal Manager; and

Senior Managers

Honourable Speaker; It is that time of the year once again where we look in retrospect to the service journey that we have travelled together as we ponder on the successes and challenges that we have confronted in outgoing fiscal year. We are equally able to use the benefit of hindsight to plan and budget for better interventions in the budget year.

Today I am presenting to this council a Draft budget for the year 2016/2017 of the Municipality as prescribed by the MFMA. Speaker this act requires that, in terms of section 16(1) of the MFMA the council must for each year approve Draft budget before the start of that financial year. In order for a municipality to comply with the subsection(1), the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

An annual budget of the municipality must set out realistically anticipated revenue for the budget year and appropriate expenditure for the budget year under the different votes of the Municipality. Alignment of Integrated Development Plan with the budget is one of the critical undertakings that the current government has put on top of the agenda. The reasoning behind is to ensure that scarce resources are optimally allocated. Speaker it is for this background that I am presenting the Draft budget report.

The Medium Term Expenditure Framework proposes a total budget of R 184 million for the 2016/2017 financial year. It appropriates a total operating expenditure of 138 million and capital expenditure of 46 million.

Honourable Speaker; we can confirm without any equivocation that no effort was spared in making sure that compilation of this Draft budget was executed in a manner which complies with the relevant provisions of the MFMA and budget related regulations. On the tariffs increase Honourable Speaker let indicate that the tariff for the 2016/2017 have been determined at 6% on property rates and refuse removal, 9% on electricity and 6% on other services.

Bulk purchases on electricity also increased by 9% which is in line with the guidelines set by National Energy Regulator of South Africa (NERSA). A tariff increase of 9.4 per cent has been approved for the 2016/2017 financial year .However NERSA has not yet approved and published guidelines on municipal electricity price increase. Employee related costs have increased by 7% .Remuneration for councillors have taken into account the Upper limits of salaries and allowances for councillors. Repairs and maintenance has increased by 6% as per the MFMA circular 79 CPI. Other general expenses have decreased by 1.8% and depreciation has decreased due to the resources that are limited.

Honourable Speaker our capital expenditure patterns continue to reflect a consistent agenda to address backlogs in the provision of basic services.

2.4 Detailed capital expenditure

Accessible road infrastructure is a critical component of economic growth and social development in our communities. It provides the required impetus for the quicker movement of goods and services to the people. The Municipality has allocated R 12.9million towards roads infrastructure assets; we are planning to construct Municipal Office Building of R20 million while R12 million has been allocated for Community Facilities which includes Landfill site, Informal trading centre and Municipal Pound.

2.5 Funding sources for capital expenditure

Capital expenditure is funded by MIG of R21 million ,Small Town Rehabilitation Grant of R 2 million, Equitable share of R 3 million and Internal generated funds from our cash backed reserves of R20 million.

We are convinced that through our collective wisdom and unity of purpose; we will be able to achieve the grand ambitions that are demonstrated in this budget.

Each of us must take individual and collective responsibility in making sure that the aspirations that we seek to fulfil through this budget are realised.

Recommendation:

Speaker I table this report to Council for noting and further recommending that:

- Draft budget and related policies for 2016/2017 financial year be approved as per MFMA and budget regulation.

3. EXECUTIVE SUMMARY

Introduction

The draft budget is prepared to meet the Integrated Development Plan(IDP)priorities as well as the strategic objectives of Umuziwabantu Municipality. The Departments have been consulted to enhance the production of a credible balanced draft budget. The limited available funds require that priorities and strategic objectives should be carefully considered in the preparation and production of realistic credible draft balanced budget that is capable of being approved and implemented as tabled.

This 2016 to 2019 Tabled Medium Term Revenue and Expenditure Framework(MTREF) Budget Report deals with the operating budget and tariff proposals as well as the capital budget and funding sources proposal to ensure that Umuziwabantu Municipality renders services to their local community in a financially sustainable manner.

Past performance

Umuziwabantu Municipality has now attained unqualified audit reports for the past consecutive years. In 2014/2015 financial year the Municipality has done exceptional well, has managed to acquire a clean audit report. Whilst the clean audit reports is a positive achievement one has to be honest and say that it tells the reader little about whether we have improved service delivery or even delivered on our constitutional mandate. It's actually reflects the good image of Umuziwabantu leadership in rendering its services, transparency and equally to benefits its needy community at large.

Financial Sustainability

Financial sustainability over the long-term has to do with the maintenance of high priority expenditure programs, both operating and capital, to ensure program sustainability and desired quality of services to be rendered. There must also be rates and service charges stability and predictability in the overall rate burden by ensuring reasonable rates and service charges to fund programs.

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The following table is a consolidated overview of the proposed 2016/2017 draft budget and medium term revenue and expenditure framework:

Table 1 Consolidated Overview of the 2016/2017

R Thousand	Adjustments Budget 2015/2016	Budget year 2016/2017	Budget year 2017/2018	Budget year 2018/2019
Total Operating Revenue	131 752	140 305	148 499	154 262
Total Operating Expenditure	131 752	138 323	148 195	153 870
Surplus/Deficit for the year	0	1 982	304	392
Total Capital Expenditure	36 535	46 257	58 157	58 207

Total operating revenue has increased by 6% for the year 2016/2017 financial year when compared to the adjustments budget. For the two outer years, operational revenue has increased by 5 % and 5% when compared to 2016/2017 financial year

Total operating expenditure for the 2016/2017 financial year has been appropriated at R138 million and translates into a 1,9million surplus. When compared to the 2015/2016 Adjustments Budget, operational expenditure has increased by 4% when compared to the Adjustments budget. For the outer years it has increased by 7 % and 3% respectively.

The capital budget of R46 million for 2016/2017 is 26% higher when compared to the adjustment budget. This is actually to assist in rendering service delivery to its needy community to fight against poverty that is affecting our community at large. Capital projects are funded by Small Town grants, MIG, Equitable share and internally generated funds, using our cash backed reserves.

Operating Revenue Framework

For Umuziwabantu Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding, hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy
- Efficient revenue management, which aims to ensure a 99 per cent annual collection rate for property rates and other key service charges,
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) MPRA,
- Increase ability to extend new services and recover costs
- The municipality's Indigent Policy and rendering of free basic services and
- Tariff policies of the Municipality

The following table is a summary of the 2015/2016 MTREF(classified by main revenue source):

Income by Source Table

KZN214 uMuziwabantu - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1										
Revenue By Source											
Property rates	2	10 116	11 682	10 581	11 217	14 246	14 246	–	14 500	15 225	15 986
Property rates - penalties & collection charges		463	655	400	401	401	401	–	425	446	469
Service charges - electricity revenue	2	19 608	21 796	29 347	31 108	31 108	31 108	–	33 907	35 603	37 383
Service charges - water revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - sanitation revenue	2	–	–	–	–	–	–	–	–	–	–
Service charges - refuse revenue	2	1 407	1 564	1 717	2 005	2 005	2 005	–	2 126	2 232	2 344
Service charges - other		–	–	–	–	–	–	–	–	–	–
Rental of facilities and equipment		113	46	48	117	148	148	–	154	162	170
Interest earned - external investments		1 592	3 250	3 508	4 000	4 000	4 000	–	4 470	4 694	4 928
Interest earned - outstanding debtors		–	–	–	–	–	–	–	420	421	422
Dividends received		–	–	–	–	–	–	–	–	–	–
Fines		261	910	15	26	26	26	–	28	29	31
Licences and permits		2 370	2 140	509	403	373	373	–	396	416	436
Agency services		–	–	–	2 632	2 632	2 632	–	2 790	2 930	3 076
Transfers recognised - operational		43 051	50 775	68 674	74 307	82 129	82 129	–	80 386	85 584	88 201
Other revenue	2	8 445	8 926	8 887	1 555	2 227	2 227	–	703	758	816
Gains on disposal of PPE		110	–	–	–	–	–	–	–	–	–
Total Revenue (excluding capital transfers and contributions)		87 537	101 742	123 686	127 772	139 296	139 296	–	140 305	148 499	154 262

In line with the formats prescribed by Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus or deficit.

Transfer recognised-operational remain the largest revenue source and electricity is the second and property rates is the third largest source and interest on investment is the fourth one. Municipality have been urged to review the tariffs of the items on annual basis to ensure they are cost reflective and market related.

Operating transfers and grants receipts

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and affordability of services were taken into account to ensure the financial sustainability of the municipality.

National Treasury continues to encourage municipality to keep increases in rates, tariffs and other charges as low as possible. Municipality must justify in their budget documentation all increases in excess of CPI upper boundary of the South African Reserve Bank's inflation rate. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payments.

Property Rates

Property rates cover the costs of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process

National Treasury's MFMA Circular No.51, inter alia with the implementation of the Municipal Property Rates Act, with regulations issued by the Department of Co-operative Governance. These came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential

categories, public service infrastructure and agricultural properties relative to residential properties to be 0.25:1

The following stipulations in the Property Rates are highlighted:

- The first R 15000 of the market value of property used for residential purposes is excluded from the rate-able value(Section 17(h)of the MPRA.
- 55% rebate will be granted to agriculture
- 100% rebate will be granted to registered indigents in terms of the Indigent Policy
- The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income.
- The applicant must submit proof of his/her age and identity and in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension
- The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place
- The property must be categorized as residential

Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to between 6 per cent as well as the increase in indigent households

Operating Expenditure Framework

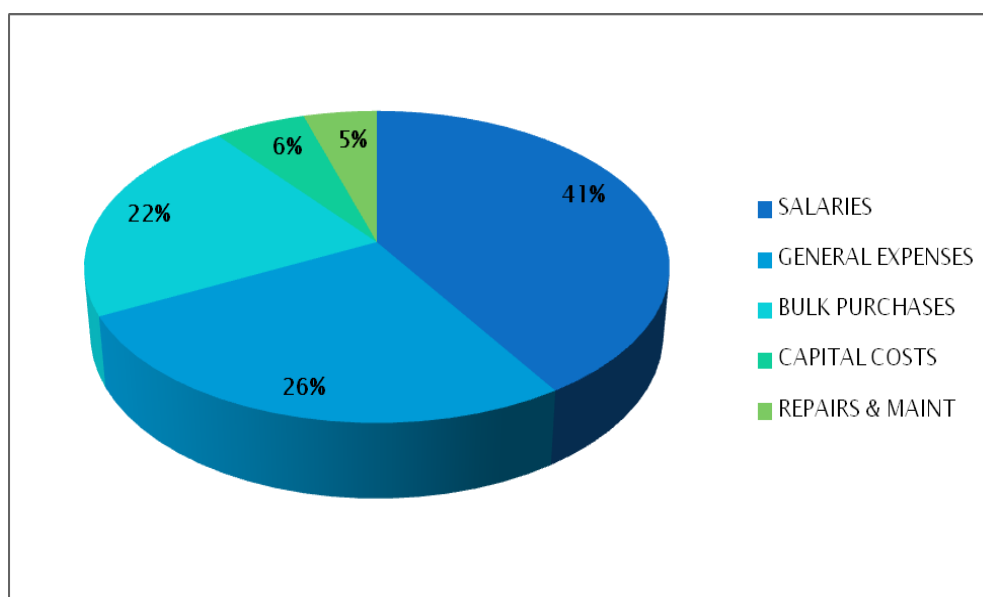
The expenditure framework for the 2016/2017 budget is informed by the following:

- Balanced budget constraint(operating expenditure should not exceed operating revenue)unless there are existing uncommitted cash-backed reserves to fund any deficit
- Funding of the over the medium-term as informed by Section 18 and 19 of the MFMA,
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.

Expenditure by Source Table

KZN214 uMuziwabantu - Table A4 Budgeted Financial Performance (revenue and expenditure)

KZN214 UMUZIWABANTU - Table A4 Budgeted Financial Performance (revenue and expenditure)											
Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Expenditure By Type											
Employee related costs	2	27 783	28 113	38 868	45 715	44 700	44 700	–	49 106	51 712	54 297
Remuneration of councillors		5 207	5 834	6 238	6 612	6 612	6 612		8 074	8 478	8 902
Debt impairment	3	891	1 185	159	169	169	169		175	186	195
Depreciation & asset impairment	2	4 852	7 142	7 000	6 259	8 924	8 924	–	8 289	8 591	9 020
Finance charges		104	72	161	305	656	656		685	724	764
Bulk purchases	2	17 329	18 332	26 509	28 100	28 100	28 100	–	30 629	32 160	33 768
Other materials	8	779	1 149	977	1 113	1 271	1 271		1 328	1 396	1 466
Contracted services		364	630	1 333	1 584	2 852	2 852	–	2 966	3 144	3 301
Transfers and grants		3 207	3 202	3 264	3 529	3 529	3 529	–	3 083	3 241	3 403
Other expenditure	4, 5	26 038	28 286	39 010	34 385	34 940	34 940	–	33 988	38 564	38 753
Loss on disposal of PPE			349	168							
Total Expenditure		86 553	94 294	123 687	127 772	131 752	131 752	–	138 323	148 195	153 870



Employee Related Costs

The budgeted allocation for employee related cost for the 2016/2017 financial year totals 57million. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7.5 percent for the 2016/2017 financial year .An annual increase of 5 per cent and 5 per cent has been included in the two outer years of the MTREF. The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act,1998(Act 20 of 1998).Overall salary increase seem to be bigger that stated due to the proposed post and the existing post that were not filled during the adjusted budget. The municipality has applied the required percentage as stated above.

The provision of debt impairment was determined based on an annual collection rate. For the 2016/2017 financial year this amount equates to R 175 thousand and escalates to R 195 thousand by 2018/2019.While this expenditure is considered to be non-cash item, it informed the cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the rate asset consumption. Budget appropriations in this regard total R 8 million for the 2016/2017 financial and equates to 5 per cent of the total operating expenditure.

A finance charge consists of lease payable to the photocopying machine and vehicles as well as bank charges for the Municipality.

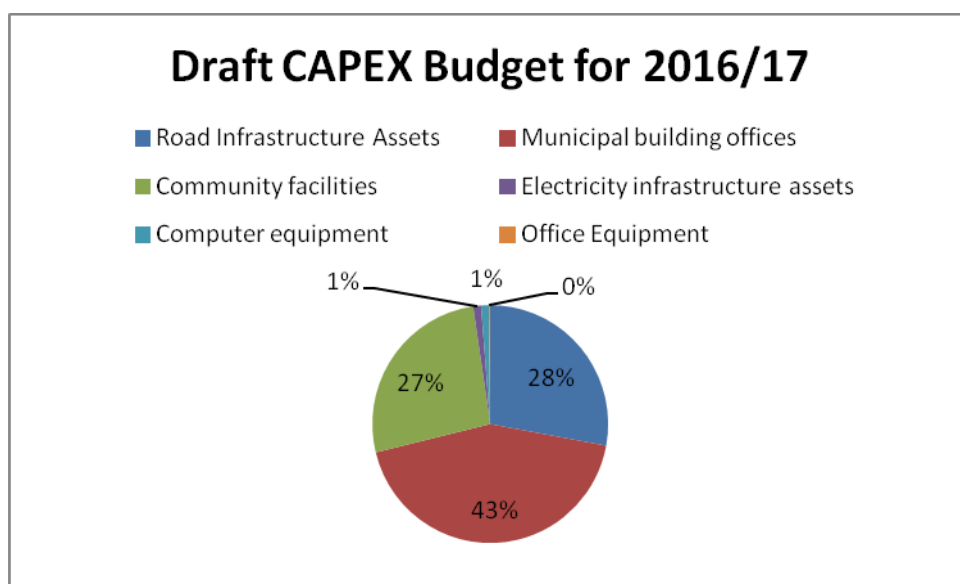
Repairs and Maintenance Asset renewal

In line with repairs and maintenance and asset renewal plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure assets even though its sitting at a low percentage of 5% for repairs and 0% for asset renewal, this is due to the limited resources that we have. Furthermore the Municipality is looking at their infrastructure assets and Municipality is certain that the its assets is in good condition therefore these percentages are not that bad as they might look.

Free Basic Social Services Package

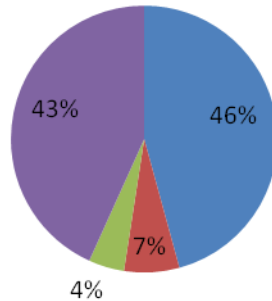
The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy.

CAPITAL EXPENDITURE PER CATEGORY/BY ASSET CLASS



Capital Funding Sources

■ MIG ■ Equitable share ■ Small Town grant ■ Internal Funding



Capital expenditure funding is funded by MIG grant of R21 mil ,Small Town grants of R 2 mil, Equitable share of R 3 mil and internal generated funds of R20 million which is funded internally from our cash backed reserves.

Draft Budget Assumptions

BUDGET ASSUMPTION	
Propert rates	88%
Refuse	88%
Electricity	88%
Rentals of facilities	100%
Interest on investment	100%
Fines	100%
Licences&permits	100%
Agency services	100%
Transfer recognised operational	100%
Other revenue	88%
Expenditure	
Employee related costs	100%
Remuneration of councillors	100%
Debt impairment	100%
Depreciation&asset impairment	100%
Finance charges	100%
Bulk purchases	100%
Other material	100%
Other expenditure	90%

Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.

- Expediting spending on service delivery

In preparing the draft budget, the following priorities were taken into account:

- Deliver more and better services in a caring and efficient manner
- Hold political office bearers and public servants accountable

The challenge for the municipality is to do more within its existing resource envelope

Over the next few years, the municipality must deliver more services- and deliver them more efficient-within a tight resources envelope. Achieving this objective requires a new way of working:

- The draft budget has been reprioritized so that money is moved from low-priority programmes to high priority programmes.

Investments

At present the Council does not have long term investments to fund the operating or capital expenditure. The investment portfolio for the Council is short term investments for conditional grants received from National Treasury and other organization of the stat

2.1 Explanatory notes to MBRR Table A1-Budget Summary for 2016/2017 Financial year.

- Table A1 is a budget summary and provides a concise overview of Umuziwabantu Local Municipality's budget from all the major financial perspectives (operating, capital expenditure, financial position, cash flow and MFMA funding compliance).
- The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
- Financial management reforms emphasises the importance of the municipal budget being funded. The Budget Summary provides the key information in this regard;
 - Transfer recognised is reflected on the Financial Performance Budget
 - Internally generated funds are financed from a combination of the operating surplus and accumulated cash-backed surplus from previous years. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
- Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The municipality is committed to provide free basic services to the needy community. In addition, the municipality continues to make progress in addressing service delivery backlogs.

2.2 Explanatory notes to MBRR Table A2-Budgeted Financial Performance (revenue and expenditure by standard classification)

Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into its functional areas. Municipal revenue, operating expenditure are then classified in terms of each of these functional areas which enables the National Treasury to compile 'whole of government' reports

2.3 Explanatory notes to MBRR Table A3-Budgeted Financial Performance (revenue and expenditure by municipal vote)

Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure. This means it is possible to present the operating surplus or deficit of a vote. The table shows the analysis of the surplus or deficit

2.4 Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

Total revenue is R 184 million in 2016/2017 and escalates to R 97 million by 2017/2018. This represents a year-on –year increase.

2. Revenue to be generated from property rates is R 14 million in 2016/2017 financial year and increases to R 15 million 2018/2019 which represents 10 per cent of the operating revenue base of the municipality and therefore remains a significant funding source for the municipality. Property rates have increased as per the CPI rate stipulated in circular 78 and 79 which is a guide for this 2016/2017 financial budget.

Transfers recognised-operating includes the local government equitable share and other grants from national and provincial government. It is noted that the equitable shares remains a significant and high funding source for the municipality.

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

- Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote, capital expenditure by standard classification, and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
- The capital programme is funded by grants, donations and internally generated funds

Explanatory notes to Table A6-Budgeted Financial Position

- Table A6 is consistent with international standards of good financial management practice, and improves understand ability for councillors and management of the impact of the budget on the statement of financial position(balance sheet)
- This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version.
- Any movement on the budgeted financial performance or the capital budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalent at year end.
- Table SA3 provides a detailed analysis of the major components of a number of items, including
 - Call investments deposits
 - Consumer debtors
 - Property, plant and equipment
 - Trade and other payables
 - Provisions non current
 - Change in net assets,
 - Reserves
- The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets on the municipality belong to the community.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

- The budgeted cash flow statement is the first measurement in determining if the budget is funded.
- It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
- Cash and cash equivalent totals R 65 million as at the end of the 2016/2017 and escalates to R 59 million by 2018/2019.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

- The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
- In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
- The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be funded
- As part of the budgeting and planning guidelines that informed the compilation of the 2016/2017 MTREF the end objective of the medium framework was to ensure the budget is funded aligned to section 18 of the MFMA.
- Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2016/2017 MTREF is funded

Explanatory notes to Table A9 - Asset Management

- Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
- National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of Property Plants and Equipments. The Municipality is working towards meeting both of these recommendations but the budget for Umuziwabantu is adequate to secure the ongoing health of the municipality's infrastructure.

Explanatory notes to Table A10 - Basic Service Delivery Measurement

- Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services. The Municipality continues to make good progress with the eradication of backlogs:
- The number of household registered for indigent in 2016/2017 is expected to increase therefore entitled to receiving Free Basic Services, this is covered by municipality's equitable share

Part 2 – Supporting Documentation

1. Draft Budget Assumptions

Given the constraints on the revenue side, the Council took very tough decisions on the expenditure side. Priority was given to:

- Protecting the poor from the worst impacts of the economic downturn
- Expediting spending on capital projects that are funded by conditional grants.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2016/2017 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Umuziwabantu residents and businesses;
- The impact of municipal cost drivers;

2. Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the MMC for Finance.

The primary aim of the Budget Steering Committee is to ensure that;

- the process followed to compile the budget complies with legislation and good budget practices;
- there is proper alignment between the policy and service delivery priorities set out in the Umuziwabantu's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

3. Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2015) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required IDP and budget time schedule on 25 August 2016. Key dates applicable to the process were:

- **August 2016** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritization criteria for the compilation of the 2016/2017 MTREF;
- **November 2016** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **3 to 7 January 2017** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2017** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2017** - Council considers the 2016/17 Mid-year Review and Adjustments Budget;
- **February 2017** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The final 2016/17 MTREF is revised accordingly;
- **31 March 2017**- final Draft Annual Budget and MTREF 2017/2020 and draft IDP 2017/2018 tabled
- **April 2017**- Public is consulted on the final Annual Budget and MTREF 2017/2020
- **6 May 2016** - Closing date for written comments;
- **6 to 21 May 2016** – finalization of the 2016/17 IDP and 2016/17 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2016**- Annual Budget and MTREF 2016/2019 is tabled for consideration for adoption

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council

4. IDP and Service Delivery and Budget Implementation Plan

Umuziwabantu's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan.

- Registration of community needs; e Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

5. Financial Modelling and Key Planning Drivers

As part of the compilation of the 2016/17 MTREF, extensive financial modeling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2016/17 MTREF:

- Local growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2015/16 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 70, 72, 74, 75, 78 and 79 and prior circulars has been taken into consideration in the planning and prioritisation process.

6. Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

7. Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Umuziwabantu has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assess and reviews organisational performance which in turn is directly linked to individual employee's performance.

8. Planning, budgeting and reporting cycle

The performance of the Umuziwabantu relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. Umuziwabantu municipality therefore has adopted one integrated performance management system which encompasses.

8.1 Performance indicators and benchmarks

a) Revenue Management

• As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

b) Creditors Management

• Umuziwabantu has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favorable impact on suppliers' perceptions of risk of doing business with Umuziwabantu, which is expected to benefit the local community in the form of more competitive pricing of tenders, as suppliers compete for the Umuziwabantu business

c) Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of Umuziwabantu. Only registered indigents qualify for the free basic services.

9. Overview of budget related-policies

The Umuziwabantu Municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2016/2017 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on Umuziwabantu residents and businesses;
- The impact of municipal cost drivers;
- The increase in the cost of remuneration. Employee related costs MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions were taken into account.

10. Overview of budget funding

Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term: Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The Umuziwabantu derives most of its operational property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees and traffic fines etc.)

Draft budget is funded as follows:

Draft budget is funded, this is a credible budget .

2.2 The future fiscal sustainability of the Council is not very positive. The following are contributing factors for this situation:

- The continued inability of consumers to settle outstanding accounts
- Government departments not paying their rates accounts
- Poor of revenue base on high rate of Indigent people around Umuziwabantu area
- The continued dependency on grant funding from the national government

The revenue strategy is a function of key components such as:

- Growth in the local and economic development;
- Revenue management and enhancement;
- To achieve at least 95 per cent annual collection rate for consumer revenue

11. Expenditure on allocations and grant programmes

KZN214 uMuziwabantu - Supporting Table SA19 Expenditure on transfers and grant programme

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
EXPENDITURE:	1									
Operating expenditure of Transfers and Grants										
National Government:		-	57 354	64 706	81 222	73 500	-	77 349	86 013	88 201
Local Government Equitable Share			43 928	55 348	76 322	68 600		73 281	81 848	86 301
Finance Management			1 635	1 749	1 800	1 800		1 825	1 900	1 900
EPWP Incentive				900	1 036	1 036		1 129	1 036	
Integrated National Electrification Programme			9 000	5 000					-	
Municipal Systems Improvement			890	934	930	930		-	-	
			900							
MIG(5%)			1 001	775	1 134	1 134		1 114	1 229	
Provincial Government:		-	975	-	723	723	-	738	800	-
Community Participation - IDP Grant			200							
Provincialisation of library			514		553	553		559	612	
Community Library Services Grant			111		170	170		179	188	
Sport and Recreation			150							
Other transfers/grants [insert description]										
District Municipality:		-	-	-	184	184	-	317	-	-
Disaster Management Grant					184	184		317		
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total operating expenditure of Transfers and Grants		-	58 329	64 706	82 129	74 407	-	78 404	86 813	88 201
Capital expenditure of Transfers and Grants										
National Government:		-	44 287	-	21 538	29 260	-	24 257	23 814	24 890
Municipal Infrastructure Grant (MIG)			28 905		21 538	21 538		21 161	23 814	24 890
			9 798							
			15							
			100							
Equitable share			5 469			7 722		3 096		
Provincial Government:		-	-	-	-	-	-	2 000	-	-
Small Town								2 000		
District Municipality:		-	-	-	201	133	-	-	-	-
Disaster Management Grant					201	133				
Other grant providers:		-	-	-	-	-	-	-	-	-
[insert description]										
Total capital expenditure of Transfers and Grants		-	44 287	-	21 739	29 393	-	26 257	23 814	24 890
TOTAL EXPENDITURE OF TRANSFERS AND GRANTS		-	102 616	64 706	103 868	103 800	-	104 661	110 627	113 091

It is estimated that a spending rate of at least 90 per cent is achieved on operating expenditure and 100 per cent on the capital programme for the 2016/17 MTREF of which performance has been factored into the cash flow budget.

The following table is a breakdown of allocations and grant programmes

12. Capital Expenditure Details

The following table is a breakdown of capital expenditure for the year 2016/2017, these capital assets will assist Umuziwabantu Municipality in rendering its services to the community.

CAPITAL EXPENDITURE PER CATEGORY		
DETAILS	AMOUNT	
Infrastructure Assets	20 258 281.80	
Community Assets	5 429 332.05	
Other Assets	20 569 177.00	
Total	46 256 790.85	

13.Councillors Allowances and Employee benefits

The following table is a breakdown of Councilors Allowances and Employee benefits for the year 2016/2017.

KZN214 uMuziwabantu - Supporting Table SA22 Summary councillor and staff benefits

Summary of Employee and Councillor remuneration R thousand	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
		A	B	C	D	E	F	G	H	I
Councillors (Political Office Bearers plus Other)	1									
Basic Salaries and Wages		4 041	4 518	4 513	4 478	4 478	4 478	6 312	6 628	6 959
Pension and UIF Contributions										
Medical Aid Contributions										
Motor Vehicle Allowance		1 157	1 040	1 328	1 199	1 199	1 199	812	853	896
Cellphone Allowance		252	276	396	465	465	465	447	469	492
Housing Allowances										
Other benefits and allowances					470	470	470	503	528	555
Sub Total - Councillors		5 450	5 834	6 238	6 612	6 612	6 612	8 074	8 478	8 902
% increase	4		7.0%	6.9%	6.0%	-	-	22.1%	5.0%	5.0%
Senior Managers of the Municipality	2									
Basic Salaries and Wages		2 301	1 981	3 187	5 315	5 315	5 315	5 056	5 359	5 681
Pension and UIF Contributions		7	54	8	11	11	11	11	11	12
Medical Aid Contributions					-	-	-	-	-	-
Overtime					-	-	-	-	-	-
Performance Bonus					-	-	-	-	-	-
Motor Vehicle Allowance	3	35	364	163	-	-	-	410	435	461
Cellphone Allowance	3	72			-	-	-	96	102	108
Housing Allowances	3				-	-	-			
Other benefits and allowances	3				1	1	1	1	1	1
Payments in lieu of leave					-	-	-	-	-	-
Long service awards					-	-	-	-	-	-
Post-retirement benefit obligations	6				-	-	-	-	-	-
Sub Total - Senior Managers of Municipality		2 415	2 399	3 358	5 327	5 327	5 327	5 573	5 908	6 262
% increase	4		(0.6%)	40.0%	58.6%	-	-	4.6%	6.0%	6.0%
Other Municipal Staff										
Basic Salaries and Wages		16 917	16 994	22 786	26 848	25 232	25 232	28 747	30 134	31 587
Pension and UIF Contributions		3 264	3 583	3 847	3 176	3 192	3 192	3 503	3 705	3 890
Medical Aid Contributions		985	1 088	3 625	4 617	4 632	4 632	4 963	5 250	5 512
Overtime		2 027	2 273	1 543	2 791	2 892	2 892	3 121	3 277	3 441
Performance Bonus					-	-	-	-	-	-
Motor Vehicle Allowance	3	1 578	1 282	1 495	1 690	2 073	2 073	1 816	1 903	1 994
Cellphone Allowance	3	211			234	316	316	306	320	335
Housing Allowances	3	214	134	491	541	541	541	531	563	591
Other benefits and allowances	3	9	359	1 710	18	20	20	45	48	50
Payments in lieu of leave		370			473	473	473	500	462	485
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Other Municipal Staff		25 573	25 714	35 497	40 388	39 373	39 373	43 533	45 661	47 885
% increase	4		0.5%	38.0%	13.8%	(2.5%)	-	10.6%	4.9%	4.9%
Total Parent Municipality		33 438	33 947	45 093	52 327	51 312	51 312	57 181	60 047	63 049
			1.5%	32.8%	16.0%	(1.9%)	-	11.4%	5.0%	5.0%
Board Members of Entities										
Basic Salaries and Wages										
Pension and UIF Contributions										
Medical Aid Contributions										
Overtime										
Performance Bonus										
Motor Vehicle Allowance	3									
Cellphone Allowance	3									
Housing Allowances	3									
Other benefits and allowances	3									
Board Fees										
Payments in lieu of leave										
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Board Members of Entities		-	-	-	-	-	-	-	-	-
% increase	4		-	-	-	-	-	-	-	-
Senior Managers of Entities										
Basic Salaries and Wages										
Pension and UIF Contributions										
Medical Aid Contributions										
Overtime										
Performance Bonus										
Motor Vehicle Allowance	3									
Cellphone Allowance	3									
Housing Allowances	3									
Other benefits and allowances	3									
Payments in lieu of leave										
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Senior Managers of Entities		-	-	-	-	-	-	-	-	-
% increase	4		-	-	-	-	-	-	-	-
Other Staff of Entities										
Basic Salaries and Wages										
Pension and UIF Contributions										
Medical Aid Contributions										
Overtime										
Performance Bonus										
Motor Vehicle Allowance	3									
Cellphone Allowance	3									
Housing Allowances	3									
Other benefits and allowances	3									
Payments in lieu of leave										
Long service awards										
Post-retirement benefit obligations	6									
Sub Total - Other Staff of Entities		-	-	-	-	-	-	-	-	-
% increase	4		-	-	-	-	-	-	-	-
Total Municipal Entities		-	-	-	-	-	-	-	-	-
TOTAL SALARY, ALLOWANCES & BENEFITS		33 438	33 947	45 093	52 327	51 312	51 312	57 181	60 047	63 049
% increase	4		1.5%	32.8%	16.0%	(1.9%)	-	11.4%	5.0%	5.0%
TOTAL MANAGERS AND STAFF	5,7	27 988	28 113	38 855	45 715	44 700	44 700	49 106	51 569	54 147

14.Monthly targets for revenue, expenditure& cash flow

The following table is a breakdown of Monthly targets for revenue, expenditure, cash flow for the year 2016/2017.

KZN214 uMuziwabantu - Supporting Table SA25 Budgeted monthly revenue and expenditure

Budget Year 2016/17														Medium Term Revenue and Expenditure Framework			
Description		Ref													Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand			July	August	Sept.	October	November	December	January	February	March	April	May	June			
Revenue By Source																	
Property rates			1 480	1 477	1 391	1 288	1 260	1 564	980	1 282	983	984	990	821	14 500	15 226	15 986
Property rates - penalties & collection charges			24	17	14	18	17	23	21	28	26	21	50	166	425	446	469
Service charges - electricity revenue			2 608	2 607	2 606	2 605	2 504	2 603	2 502	2 601	2 600	2 599	2 598	5 474	33 907	35 603	37 383
Service charges - water revenue														-	-	-	-
Service charges - sanitation revenue														-	-	-	-
Service charges - refuse revenue			357	156	155	154	153	152	151	150	149	148	147	256	2 126	2 232	2 344
Service charges - other														-	-	-	-
Rental of facilities and equipment			13	13	13	13	13	13	13	13	13	13	13	13	154	162	170
Interest earned - external investments			463	443	444	445	523	446	447	448	318	174	27	295	4 470	4 694	4 928
Interest earned - outstanding debtors														420	420	421	422
Dividends received														-	-	-	-
Fines			1	2	3	4	5	6						7	28	29	31
Licences and permits			24	25	26	27	28	29	30	31	32	19	20	102	396	416	436
Agency services			300	200	300	500	300	300	100	150	100	111	210	219	2 790	2 930	3 076
Transfers recognised - operational			25 361				19 000				35 000			1 025	80 386	85 584	88 201
Other revenue			67	69	71	343	45	47	50	52	54	56	58	(209)	703	758	816
Gains on disposal of PPE																	
Total Revenue (excluding capital transfers and contributions)			30 698	5 009	5 023	5 397	23 848	5 183	4 294	4 755	39 275	4 124	4 113	8 589	140 305	148 500	154 262
Expenditure By Type																	
Employee related costs			3 500	3 500	3 500	3 500	3 500	3 500	4 718	4 718	4 718	4 718	4 718	4 516	49 106	51 712	54 297
Remuneration of councillors			650	650	650	650	650	650	696	696	696	696	696	696	8 074	8 478	8 902
Debt impairment														175	175	186	195
Depreciation & asset impairment														8 289	8 289	8 591	9 020
Finance charges														685	685	724	764
Bulk purchases			2 557	2 558	2 559	2 560	2 561	2 562	2 563	2 564	2 565	2 566	2 560	2 452	30 629	32 160	33 768
Other materials														1 328	1 328	1 396	1 466
Contracted services			200	300	400	500	600	700	207					59	2 966	3 144	3 301
Transfers and grants														3 083	3 083	3 241	3 403
Other expenditure			3 152	3 052	2 952	3 152	3 052	2 952	3 152	3 052	2 952	3 252	2 500	765	33 988	38 564	38 753
Loss on disposal of PPE																	
Total Expenditure			10 059	10 060	10 061	10 362	10 363	10 364	11 336	11 030	10 931	11 232	10 474	22 048	138 323	148 195	153 870
Surplus/(Deficit)																	
Transfers recognised - capital			20 638	(5 052)	(5 039)	(4 966)	13 484	(5 182)	(7 043)	(6 276)	28 343	(7 108)	(6 361)	(13 459)	1 982	304	392
Contributions recognised - capital			13 018				5 000				6 257			-	24 275	23 814	24 890
Contributed assets														-	-	-	-
Surplus/(Deficit) after capital transfers & contributions																	
Taxation			33 656	(5 052)	(5 039)	(4 966)	18 484	(5 182)	(7 043)	(6 276)	34 600	(7 108)	(6 361)	(13 459)	26 257	24 118	25 282
Attributable to minorities														-	-	-	-
Share of surplus/ (deficit) of associate														-	-	-	-
Surplus/(Deficit)	1		33 656	(5 052)	(5 039)	(4 966)	18 484	(5 182)	(7 043)	(6 276)	34 600	(7 108)	(6 361)	(13 459)	26 257	24 118	25 282

15.Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

a. In year reporting

Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Executive Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the website.

b. Internship programme

The Municipality is participating in the Municipal Financial Management Internship programme and has employed interns undergoing training in various divisions of the Financial Services Department. Some of interns has been appointed permanently.

c. Budget and Treasury Office

The Budget and Treasury Office has been established in accordance with the MFMA.

d. Audit Committee An Audit Committee has been established and is fully functional.

e. Service Delivery and Implementation Plan

16. Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget

How are those funds used?

- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was available